COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0992-01
Bill No.: SB 144
Subject: Housing; Taxation and Revenue - Income; Tax Credits
Type: Original
Date: March 24, 2011

Bill Summary: This proposal places a one year moratorium on the authorization of certain tax credits.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	$0 to Unknown	$0 to Unknown	$12,625,000 to Unknown
Total Estimated Net Effect on General Revenue Fund	**$0 to Unknown**	**$0 to Unknown**	**$12,625,000 to Unknown**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials at the **Budget and Planning (BAP)** assume this proposed legislation should not result in additional costs or savings to BAP. The proposal places a one-year moratorium on the issuance of MDFB Infrastructure and LIHP credits, beginning the effective date of the proposal. This proposal would reduce the issuance and redemption of credits in future fiscal years. The bill contains an emergency clause. BAP assumes it would become effective July 1, 2011, but the actual effective date could be different, which would alter the timing of any revenue impacts.

The LIHP is projecting authorizations of $192 million in FY 2012. Based on historical redemption patterns, this would reduce redemptions by $3.8 million in FY12, and $5.8 million in both FY13 & FY14. This would increase general and total state revenues.

The MDFB is projecting $10 million in authorizations in FY12, but the maximum authorization could increase to $25 million in certain cases. This proposal would reduce redemptions by $0.9 million in both FY12 & FY13, and $1.9 million in FY14, based on historical redemption patterns. This would increase general and total state revenues.

This proposal may also reduce economic activity and associated induced revenues; BAP does not have an estimate of these revenues.

Officials at the **Department of Economic Development's Missouri Housing Development Commission** (MHDC) assume MHDC administers the Mo. LIHTC. This bill sets a moratorium on Mo. LIHTC authorizations for the 12 month period following the effective date of the bill. The bill has an emergency clause. If we assume this bill passes as drafted and becomes effective in May, the moratorium would essentially mean that no state credits would be authorized in FY12. Because there is a significant time (approximately 18-24 months) between the date a project is authorized Mo. LIHTC and when those credits are redeemed, there would be no projected reduction in redemptions associated with the moratorium until FY14 at the earliest. In FY14, the estimated reduction in redemptions and corresponding impact on General Revenue would be $12,625,000.

Because the Mo. LIHTC is a 10-year credit, the reduction in tax credit issuances and redemptions due to the moratorium would continue through FY25. The fiscal impact associated with a reduction in Mo. LIHTC tax credit issuances and redemptions would be projected to start in FY14 in the amount of $12,625,000. The long-range reduction in redemptions associated with the moratorium would be $182,375,000 over the years FY15-FY25. The long range impact on General Revenue from the reduction in tax credit redemptions by fiscal year over the period is

ASSUMPTION (continued)

projected below.

FY15	$19,000,000
FY16	$19,500,000
FY17	$19,500,000
FY18	$19,500,000
FY19	$19,500,000
FY20	$19,500,000
FY21	$19,500,000
FY22	$19,500,000
FY23	$19,500,000
FY24	$6,875,000
FY25	$500,000

The fiscal impact associated with this legislation would be the savings to the state from not authorizing a year's worth of Mo. LIHTC. Of course, there is no fiscal impact associated with tax credits until they are redeemed. In order to estimate the potential fiscal impact of this proposal, DED would have to be able to project when the FY12 Mo. LIHTC would have been redeemed if not for the moratorium.

This analysis makes the following major assumptions:

If not for the moratorium, the maximum allowable Mo. LIHTC would be authorized in FY12 ($195,000,000);

All the credits authorized would eventually be issued;

65% of the credits authorized would be issued in FY14, 97% would be issued in FY15, and the full 100% would be issued by FY16 based on historical timeframes between authorization and issuance;

All the credits issued would eventually be redeemed; and

Credits would be redeemed in the same year of issuance.

The Mo. LIHTC is a 10-year credit, which means that the annual credit amounts are issued each year for 10 years. For the purpose of authorizing credits, the full ten-year amount is counted at the time of authorization. The maximum FY12 authorizations would be $195,000,000. The credits are not issued until after the development has completed construction and leased up. Using the timing assumptions from a historical analysis of the time between authorization and issuance, the FY12 authorized credits would be initially issued during FY14-FY16. The 10-years of issuances would continue until FY23-FY25 (developments initially issued credits in FY14

ASSUMPTION (continued)

would be issued credits each year until FY23, etc). The table below illustrates the projected issuances.

		Projected Issuances of Mo. LIHTC Authorized in FY12			
Fiscal Year	Authorizations	Developments completed in FY14	Developments completed in FY15	Developments completed in FY16	Total projected issuances by Fiscal Year
FY12	$195,000,000				
FY13					0
FY14		$12,625,000			$12,625,000
FY15		$12,625,000	$6,375,000		$19,000,000
FY16		$12,625,000	$6,375,000	$500,000	$19,500,000
FY17		$12,625,000	$6,375,000	$500,000	$19,500,000
FY18		$12,625,000	$6,375,000	$500,000	$19,500,000
FY19		$12,625,000	$6,375,000	$500,000	$19,500,000
FY20		$12,625,000	$6,375,000	$500,000	$19,500,000
FY21		$12,625,000	$6,375,000	$500,000	$19,500,000
FY22		$12,625,000	$6,375,000	$500,000	$19,500,000
FY23		$12,625,000	$6,375,000	$500,000	$19,500,000
FY24			$6,375,000	$500,000	$6,875,000
FY25				$500,000	$500,000

A tax credit cannot be redeemed by a taxpayer until after issuance, and once again it is not until redemption that the credit actually "costs" the state. It is impossible to know when individual taxpayers will decide to redeem their credits. The Mo. LIHTC has a three-year carry back and five-year carry forward, which means that the credits associated from FY12 authorizations and subsequent issuances in FY14-FY25 could actually be redeemed against liability in tax years 2011 to 2030. For the sake of estimating fiscal impact, we have assumed that all credits would have been redeemed in the year issuance.

Based on the calculations above, the projected impact on General Revenue in the form of reductions in redemptions associated with a moratorium of Mo. LIHTC authorizations in FY12 is projected as follows:

FY12: $0
FY13: $0
FY14: $12,625,000
FY15-FY25: $182,375,000.

<u>ASSUMPTION</u> (continued)

Officials at the **Department of Economic Development's Missouri Development Finance Board** assume there is a potential indirect affect to Total State Revenue as tax credits offset State Revenue. It is unknown what this impact would be.

Despite the moratorium, credits will still be issued under this program during the next 12 months due to the fact that there have been projects that have received authorizations prior to the legislation and the issuance of such credits would not be impacted by this legislation.

The legislation would prohibit the authorization of new project allocations. As such, only the lack of new authorizations for issuances would impact State Revenue and the factors are too numerous to determine how/when this would affect State General Revenue. It is unknown whether or not new projects will seek credits. If they do seek credits, it is unknown if they will receive authorization. If authorization is granted it is unknown if they will be successful in their efforts to raise contributions. And if contributions are raised taxpayer behavior is unknown as we cannot predict if/when the credits will be redeemed.

Officials at the **Department of Revenue** assume that there is no fiscal impact from this proposal.

Oversight will reflect a $0 to Unknown savings in each fiscal year of the fiscal note as a result of the moratorium of issuance of the Infrastructure Contribution tax credit. Oversight is unsure of the lag time between authorization of projects, issuance of credits and redemption of those credits and how this proposal will impact those three. The MDFB issued 31.0 million in credits under this program in FY 2008, $19.7 million in FY 2009 and $39.2 million in FY 2010. According to the Tax Credit Analysis form prepared for the budget, the anticipated issuance amounts for this program are $15.2 million in FY 2011 and $7.5 million in FY 2012.

Oversight will utilize the MHDC's estimate in the delay between the tax credit authorization (when project approved - assumed to be FY 2012) versus issuance (when project completed - assumed to be FY 2014). If the state 'skips' a year of low income housing tax credit project authorizations, the ten year flow of tax credits will be savings to the state from FY 2014 to FY 2025.

Oversight assumes there would be some negative fiscal impact to the state for the one year moratorium on issuance of these tax credits. However, Oversight assumes these impacts are indirect effects of the bill and have not reflected them on the fiscal note.

This proposal could increase Total State Revenues.

FISCAL IMPACT - State Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE			
Savings - MDFB One year moratorium on the authorization of Infrastructure Development Fund Contribution tax credits	$0 to Unknown	$0 to Unknown	$0 to Unknown
Savings - MHDC One year moratorium on the authorization of low income housing tax credits.	$0	$0	$12,625,000
ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	**$0 to Unknown**	**$0 to Unknown**	**$12,625,000 to Unknown**

FISCAL IMPACT - Local Government	FY 2012 (10 Mo.)	FY 2013	FY 2014
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses could be affected by this proposal.

FISCAL DESCRIPTION

This act prohibits the authorization for issuance of Low Income Housing and Missouri Development Finance Board Infrastructure Development Fund Contribution Tax Credits for the one year period beginning on the effective date of the act.

This act contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

JH:LR:OD

SOURCES OF INFORMATION

Budget and Planning
Department of Economic Development
Missouri Housing Development Commission
Missouri Development Finance Board
Department of Revenue

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JH:LR:OD